

CC:FI&P:Br5:Selig

JUL 8 1991

District Counsel - Greensboro

Senior Technician Reviewer, (Financial Institutions & Products), Branch 5

Tax-Exempt Bonds Issued by the [REDACTED]  
[REDACTED]

This memorandum is in response to your request for the views of this office concerning the tax status of certain bonds issued by the [REDACTED].

The memorandum of [REDACTED], your informant, reports that certain bonds of a tax-exempt issue ("Bonds") were used to pay for [REDACTED] that had been officially cancelled before the issuance of the Bonds. [REDACTED] contends that interest on the Bonds should be taxable because the Bonds were not validly issued under state law.

[REDACTED] is correct that the Bonds must be valid obligations under state law to be tax-exempt bonds under federal law. See Rev. Rul. 87-116, 1987-2 C.B. 44, which states that interest on bonds issued by a political subdivision of a state is not excludable from gross income under section 103(a) of the Code if, subsequent to issuance, the bonds are determined by a court to be invalid under state law. In that revenue ruling, the supreme court of the state held that certain revenue bonds were not valid obligations under state law.

In this case we have insufficient information to determine whether the Bonds were validly issued under the laws of the state. We would need further documentation to determine the validity of the Bonds under the laws of the state and, therefore, the tax status of the Bonds. We agree with you that the state statute does not overtly support the informant's position. We also believe that House Bill 1018 does not overtly support his position.

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On June 4, 1991, Mr. David Selig discussed the views described in this memorandum and other views concerning this matter with Mr. James Gray of your office. If we can be of further assistance, please call Mr. Selig at (202)566-3283.

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Michael G. Bailey